

PROPOSED RESOLUTION

Resolution W-5206
WD

Agenda ID #17722

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION W-5206

September 26, 2019

RESOLUTION

(RES. W-5206), CALIFORNIA WATER SERVICE COMPANY,
ORDER APPROVING CALIFORNIA WATER SERVICE
COMPANY'S REQUEST TO ACQUIRE CRANE RIDGE
MUTUAL WATER COMPANY.

By Advice Letter No. 2343 filed on June 21, 2019

SUMMARY

By Advice Letter (AL) 2343, filed on June 21, 2019, this Resolution approves California Water Service Company's (Cal Water) request to acquire Crane Ridge Mutual Water Company (Crane Ridge) for the purchase price of \$1 under the terms and conditions set forth in the July 23, 2018 Asset Purchase and Sale Agreement (APSA) between Cal Water and Crane Ridge. Cal Water is authorized to add Crane Ridge to its Livermore District for both operational and ratemaking purposes and to implement existing Livermore District tariffs to the Crane Ridge customers.

BACKGROUND

Pursuant to General Order (GO) 96-B, Water Industry Rules 7.3.2 (1) and 7.3.2 (8), Cal Water filed AL 2343 on June 21, 2019 requesting Commission authority to acquire Crane Ridge and incorporate Crane Ridge into its Livermore District. AL 2343 is also in accordance with Section 5 of GO 96-B, Section 8.1 of the Water Industry Rules in GO 96-B, and Appendix D to Decision (D.) 99-10-064.

Crane Ridge is a nonprofit mutual water company located in the unincorporated areas of the City of Livermore and is adjacent to the service area of Cal Water's Livermore District. Crane Ridge serves approximately 26 residential customers and 1 non-residential customer. Since April 1, 1997 under the Water Operation Agreement (WOA), Cal Water has been operating and maintaining Crane Ridge's water system and

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providing water service to Crane Ridge customers. Water is supplied from Cal Water to Crane Ridge through an interconnecting distribution system. Cal Water applies the rate schedules of its Livermore District to Crane Ridge customers with an additional surcharge to cover operating expenses and revenue sharing required for unregulated contracts. The initial surcharge was \$17.50 per month and consistent with the WOA, the surcharge has increased at the same percentage rate as the rate increases of the Livermore District. The current monthly surcharge is \$48.65.

NOTICE AND PROTEST

In accordance with GO 96-B General Rule 4.2 and D.99-10-064, Cal Water served notice to all affected customers on June 21, 2019 for Crane Ridge customers by mail and on July 2, 2019 for its Livermore District customers via bill insert. Cal Water also provided a copy of AL 2343 to its service list pursuant to GO 96-B General Rules 4.3 and 7.2 and Water Industry Rule 4.1.

No comments or protests letters were received.

DISCUSSION

In D.99-10-064, the Commission addressed the regulation guidelines for Class A water utilities merging and acquiring water utilities, and Section 4 of the adopted Settlement Agreement specifically deals with acquisitions of mutual water companies. Section 4.01 states that Public Utilities Code Sections 852 and 854 do not require “a privately-owned utility to obtain authorization from the Commission before acquiring a publicly-owned utility.” Furthermore, PU Code Section 851 is not triggered as mutual water companies are not public utilities, as stated in PU Code Section 2705.

Section 4.02 of the adopted Settlement Agreement states that the acquiring utility is “authorized to file an advice letter placing into effect the existing rates of its adjacent or nearby water system, the acquired system’s rates, or rates lower than either.” Further clarification of Section 4.02 is provided in D.99-10-064.

“Pursuant to Section 451 of the Public Utilities Code, it is a distinct power and obligation of the Commission to establish just and reasonable rates... the reasonableness of the rates proposed should be addressed and justified in the advice letter... the implementation of any rate for an acquired water system shall require

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individual action by the Commission authorizing said rates either through Commission resolution or decision.”¹

Cal Water’s filing of AL 2343 for the acquisition of Crane Ridge and to implement the existing rates of its Livermore District are consistent with the guidelines of D.99-10-064.

The Commission has historically required a test of ratepayer indifference for evaluating the sale and purchase of a water utility and for the buyer to demonstrate that the acquisition of the utility yields a tangible benefit to the ratepayer. Using this test to assess the acquisition of Crane Ridge by Cal Water, the Water Division evaluated several key metrics: (1) service quality; (2) continuity of service; and (3) the impact of the purchase price on ratebase.

1. How will the proposed acquisition of Crane Ridge affect service quality?

Cal Water has been providing water service to its Livermore District since 1927 and currently serves approximately 18,000 customers. As discussed above, Cal Water has also been providing water service to Crane Ridge since 1997. As a Class A water utility serving over 460,000 customers state-wide, Cal Water has the financial resources and technical experience in operating water systems to ensure the continuation of safe and reliable water service for the Livermore and Crane Ridge customers. In addition, the acquisition will allow Crane Ridge customers access to Cal Water’s extensive customer service and online resources, along with Cal Water’s Low-Income Rate Assistance program.

2. How will the proposed acquisition of Crane Ridge affect service continuity?

The acquisition of Crane Ridge will allow Cal Water to maintain its current water service and the opportunity for Cal Water to invest in infrastructure improvements for the Crane Ridge water system. Cal Water has no immediate capital projects planned and any new projects will be proposed in its next General Rate Case.² Crane Ridge customers will continue to be billed the same rates as the customers of the Livermore District, minus the monthly surcharge from the WOA.

¹ D.99-10-064, p. 10.

² Cal Water will file its next General Rate Case in 2021 for Test Year 2023.

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3. How will the proposed purchase price impact rate base?

The Commission's standard of review is to evaluate the purchase price pursuant to PU Code Section 2720(a), which states that when a water system is acquired, "the Commission shall use the standard fair market value when establishing the rate base value." Under the terms and conditions of the APSA, Cal Water has agreed to acquire Crane Ridge for the purchase price of \$1. Cal Water has also stated in AL 2343 that it will not request recovery of a premium over existing Crane Ridge rate base. The impact on Cal Water's rate base from the acquisition of Crane Ridge will be \$1. Since the rate base value is of a nominal amount, the Water Division finds the sales price of \$1 to be reasonable.

Rate Implementation

In accordance with Section 4.02 of the adopted Settlement Agreement in D.99-10-064 and PU Code Section 451, Cal Water will apply existing rates from its Livermore District to the Crane Ridge customers. The surcharge that was placed on Crane Ridge in addition to the Livermore rates from the WOA will be removed. The current average usage for a residential customer in Crane Ridge is 22 Ccf per month and as a result of the acquisition, the typical monthly bill will decrease from \$155.08 to \$106.43.

California Environmental Quality Act (CEQA)

In accordance with CEQA Guidelines Section 15061(3), an activity is exempt from CEQA review if "it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment." Cal Water's acquisition of Crane Ridge only involves a change in control of existing water facilities and does not involve new construction or changes in water supply. Therefore, CEQA review is not required for the approval of this acquisition.

Conclusion

Pursuant to PU Code Sections 451 and 2720 and D.99-10-064, We find the acquisition of Crane Ridge by Cal Water to be reasonable, in the public interest, and does not warrant a more comprehensive review than would be provided through a formal PU Code Section 851 application. Therefore, AL 2343 should be approved with the conditions set forth in this resolution.

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AFFORDABILITY OF RATES

The proposed water rates for Crane Ridge are \$106.43 per month or \$1,277.16 annually. Crane Ridge is located in the City of Livermore where the annual median household income (MHI) is \$109,054.³ The proposed rate would be 1.2% of the MHI. According to the Department of Water Resources, Crane Ridge is not located in a Disadvantaged Community.⁴

It should be noted that no affordability criteria have been developed and adopted by the Commission. The Commission adheres to cost-of-service regulatory principles in developing rates for its jurisdictional utilities, and Cal Water's proposed rates for Crane Ridge are at the minimum requirement to satisfy the utility's technical, managerial, financial, and operational capability. The discussion regarding affordability is presented, nonetheless, to indicate to the Commission the relationship between the proposed rates and the local economic circumstances.

SAFETY & COMPLIANCE

Public Utilities Code Section 451 requires every public utility to maintain adequate, efficient, just and reasonable service to promote the "safety, health, comfort, and convenience of its patrons, employees, and the public." Cal Water has been providing water service to the Livermore District since 1927 and to Crane Ridge since 1997 and is compliant with State Water Resources Control Board's water quality standards for safe drinking water. Cal Water has the experience and resources to continue to operate the Crane Ridge water system in a safe, reliable, and efficient manner. We therefore find that the acquisition of Crane Ridge by Cal Water will ensure the health and safety of the Crane Ridge customers.

COMMENTS

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to Public Utilities Code section 311(g)(2) the otherwise applicable 30-day period for public review and comment is waived.

³ US Census Bureau

⁴ Public Resources Code Section 75005(g) defines Disadvantaged Community as "a community with an MHI less than 80% of the statewide average."

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FINDINGS AND CONCLUSIONS

1. By Advice Letter 2343 filed on June 21, 2019, California Water Service Company (Cal Water) request Commission authority to acquire Crane Ridge Mutual Water Company (Crane Ridge).
2. Cal Water authorization request for the acquisition of Crane Ridge via advice letter is consistent with Decision 99-10-064.
3. No comments or protests were received for Advice Letter 2343.
4. Crane Ridge's location is adjacent to Cal Water's Livermore District.
5. Cal Water has been serving and operating Crane Ridge since April 1, 1997 under the Water Operations Agreement (WOA).
6. Under the terms and conditions of the Asset Purchase and Sale Agreement dated July 23, 2018, the purchase price of Crane Ridge is \$1.
7. Cal Water is not requesting a premium over existing Crane Ridge rate base.
8. The amount of \$1 will be added to the rate base of Cal Water's Livermore District.
9. Cal Water requests to implement existing adopted rates from its Livermore District to the Crane Ridge customers and eliminate the current monthly surcharge from the WOA.
10. The sale and purchase of Crane Ridge by Cal Water meets the ratepayer indifference test standard as the Livermore and Crane Ridge customers will not be negatively affected in terms of service quality, continuity of service, and rates and therefore, should be approved.
11. An environmental review under the California Environmental Quality Act (CEQA) is not required for the approval of this acquisition.

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12. Cal Water should be granted the authority to file a Tier 1 Advice Letter to incorporate Crane Ridge into its Livermore District service area and apply all its current tariff rates, rules and regulations to Crane Ridge.

THEREFORE, IT IS ORDERED THAT:

1. This Resolution grants authority to California Water Service Company to acquire Crane Ridge Mutual Water Company, under the terms and conditions set forth in the July 23, 2018 Asset Purchase and Sale Agreement.
2. Authority is granted to California Water Service Company to file a Tier 1 Advice Letter to incorporate the Crane Ridge customers into its Livermore District and apply all currently adopted tariff rates, rules and regulations. The effective date of the revised tariffs shall be the date of the Tier 1 Advice Letter filing.
3. This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on September 26, 2019; the following Commissioners voting favorably thereon:

ALICE STEBBINS
Executive Director

**CALIFORNIA WATER SERVICE COMPANY
ADVICE LETTER NO. 2343
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